IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO

In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO as representative of THE COMMONWEALTH OF PUERTO RICO, *et al.*, Debtors.[1]	PROMESA Title III No. 17 BK 3283-LTS (Jointly Administered)

REPLY DECLARATION OF LANORA C. PETTIT IN SUPPORT OF JOINT MOTION BY THE AD HOC GROUP OF GENERAL OBLIGATION BOND-HOLDERS, ASSURED GUARANTY CORP., ASSURED GUARANTY MUNICIPAL CORP., AND THE MUTUAL FUND GROUP FOR ORDER AUTHORIZING RULE 2004 EXAMINATION

1. I am an attorney associated with the law firm of Robbins, Russell, Englert, Orseck, Untereiner, and Sauber LLP, counsel, along with Paul, Weiss, Rifkind, Wharton & Garrison, LLP and Jiménez, Graffam & Lausell, for movants the Ad Hoc Group of General Obligation Bondholders. I submit this declaration in further support of the Joint Motion By The Ad Hoc Group Of General Obligation Bondholders, Assured Guaranty Corp. And Assured Guaranty Municipal Corp. for Order Authorizing Rule 2004 Examination.

[1] The Debtors in these title III cases (collectively, the "Title III Cases"), along with each Debtor's respective Title III Case number and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (the "Commonwealth") (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico; and (v) Puerto Rico Electric Power Authority (Bankruptcy Case No. 17 BK 4780-LTS) (Last Four Digits of Federal Tax ID: 3747) (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686). (Title III Case numbers are listed as bankruptcy case numbers due to software limitations).

2. Attached hereto as Exhibit 1 is a true and correct copy of an article written by Robert Slavin titled "Puerto Rico bond payments will improve after nine years: Jaresko," which was published by *The Bond Buyer* on September 19, 2017.

3. Attached hereto as Exhibit 2 is the Written Testimony of Natalie Jaresko, Executive Director of the Financial Oversight and Management Board for Puerto Rico submitted to the House Committee on National Resources, which is dated November 7, 2017.

4. Attached hereto as Exhibit 3 is a true and correct copy of a document titled "Treasury Single Account ('TSA') FY 2018 Cash Flow As Of October 20, 2017," which was published by the Financial Oversight And Management Board shortly before its Tenth Public Meeting held on October 31, 2017, in San Juan, Puerto Rico.

I declare under penalty of perjury that to the best of my knowledge the foregoing is true and correct.

Executed on November 7, 2017 in Washington, D.C.

By: ______________________
Lanora C. Pettit

EXHIBIT 1

Puerto Rico bond payments will improve after nine years: Jaresko

By **Robert Slavin**
Published **September 19 2017, 1:11pm EDT**

More in **PROMESA, Commonwealth of Puerto Rico, University of Puerto Rico , Puerto Rico Sales Tax Financing Corp, Puerto Rico Employees Retirement System, Puerto Rico Public Finance Corporation, Puerto Rico Aqueduct & Sewer Authority, Puerto Rico Public Buildings Authority, Puerto Rico Infrastructure Financial Authority, Puerto Rico Electric Power Authority, Puerto Rico Highway & Transportation Authority, Puerto Rico**

Puerto Rico's bond payments should improve after nine years, said Oversight Board executive director Natalie Jaresko in an interview at The Bond Buyer offices Monday.

The statement was one of several where Jaresko indicated optimism about Puerto Rico's future and the board's relationships with bondholders and the government of Gov. Ricardo Rosselló.

Natalie A. Jaresko, executive director, Financial Oversight and Management Board for Puerto Rico.
Aaron Weitzman

The next few years of reform will inevitably be tough, Jaresko said. The board doesn't expect the island to return to nominal gross national product growth until fiscal year 2022 and inflation-adjusted growth until fiscal 2024. In the 10 fiscal years from 2017 to 2026 the board expects the "available cash" for debt service will be about 24% of due debt.

However, it is “misleading” to look at what the board’s approved 10-year fiscal plan has available for debt service. After 10 years, Jaresko expects Puerto Rico’s economy to be growing. “In the years 11 to 40 there’s bound to be more cash in all the estimates available for debt service,” Jaresko said. “So creditors shouldn’t only focus on the 10 years.”

Following the Puerto Rico Oversight, Management and Economic Stability Act’s section 312, the board is working on a “plan of adjustment” for the debt, she explained. She said she couldn’t provide any timing on when the board would release the plan.

The payment of debt in the current fiscal year remains a bit unclear, the official said. While the approved fiscal plan indicates that there is expected to be $404 million of available cash, the board-approved General Fund budget allots $0 to debt service.

The board sees the available cash as being available as a cash reserve buffer as well as for debt service, Jaresko said.

She noted that Title III bankruptcy judge Laura Taylor Swain has said she plans to rule by mid-December on the dispute between the Puerto Rico Sales Tax Financing Corp. (COFINA) and Puerto Rico over the ownership of sales tax proceeds allotted for the former. Once this is done the government may pay some of the debt due this fiscal year, Jaresko said.

Work on restructuring all of Puerto Rico’s public sector debt is going on three tracks simultaneously, she said. It is happening in negotiations, in the private mediation process overseen by Barbara Houser, and in the Title III litigation process overseen by Judge Swain.

On the Puerto Rico Aqueduct and Sewer Authority’s $3.7 billion in bond debt, Jaresko said the authority wasn’t in payment default yet but that there were negotiations going on concerning the debt’s restructuring. The authority owes money to federal agencies as well as to the wide range of parties that own bonds. Negotiations encompassing them, the board, and PRASA are underway.

She said she was “very hopeful that these consensual negotiations will result in a Title VI agreement and that will be helpful in attracting and maintaining federal funding [at PRASA.]” The Environmental Protection Agency and the United States Department of Agriculture are able to provide low-cost loans.

Since PRASA isn’t in payment default yet it may have a reasonably easy time to come back to the market, the executive director said.

The board is working with PREPA and parts of the Rosselló administration in creating a new fiscal plan for PREPA, Jaresko said. Lowering the island’s electrical rates is important for improving the commonwealth’s economic future. She said she expected the board to discuss a PREPA fiscal plan at the board’s Oct. 31 meeting.

While in late August the board filed a suit against Rosselló and his government to force pension cuts and the introduction of a furlough program, Jaresko was generally positive about the board's relations with the elected government. She said she was satisfied with government's progress in in releasing financial information to the board.

On a monthly basis the Rosselló government is providing the board a report comparing budgeted to actual spending department by department. The board is also receiving a weekly report of cash and liquidity. The government is moving towards better accounting practices, she said. Puerto Rico will soon release the fiscal year 2015 comprehensive annual financial report.

Jaresko said the lesson of her stint as Ukraine Minister of Finance in 2014 to 2016, a period of financial and economic crisis, was that "implementation is everything."

At a board meeting in August, Jaresko said a lack of implementation plans led the board to order the government to institute furloughs.

"There are governments aplenty that can adopt plans, adopt laws, have full commitment and desire to change but implementation at an agency level in a bureaucracy is extremely difficult," Jaresko said. "And that is the key to success."

Jaresko said she thought the Rosselló administration was "committed" to the fiscal plan. "If you take the case of right-sizing the government, I have no doubt there is a desire and intent and it is part of the public campaign of the governor to right-size the government. So I don't think there's not an alignment in the goal."

However, "the devil will be in the details of the implementation and enforcement of the fiscal plan and that is the biggest lesson learned [from the Ukraine.]"

White Paper In the municipal market, green Is the new black

Investors interested in socially responsible investments and tax-exempt income may …

PARTNER INSIGHTS
SPONSOR CONTENT FROM:

Fidelity INVESTMENTS

Investment strategies

September 1

Without an implementation plan to execute cuts in an agency, the agency can run out of money eight or nine months into the fiscal year, she said. Then the agency usually turns to the central government for an additional allocation to continue operations.

"There is a general fatigue among creditors [with Puerto Rico's continuing problems] and I understand that because they have been dealing with these problems for years. But the problems that grew didn't evolve overnight and didn't evolve over one year and resolving them is also going to take time."

"I would just ask your readers to understand that the goal of the board is to work itself out of a job. As quickly as possible [we wish] to return to structural balance and renewed access to markets."

Robert Slavin

More from this Author

Puerto Rico Oversight Board sends PREPA to Title III, approves budget

Puerto Rico GO holders attack Oversight Board, governor

U.S. Senator attacks Puerto Rico board's debt restructuring

Comments

Posting as **locked market** Edit name

Add your comments here

Comment Now

Bondholders and bond insurers will have a lot to say in Hartford

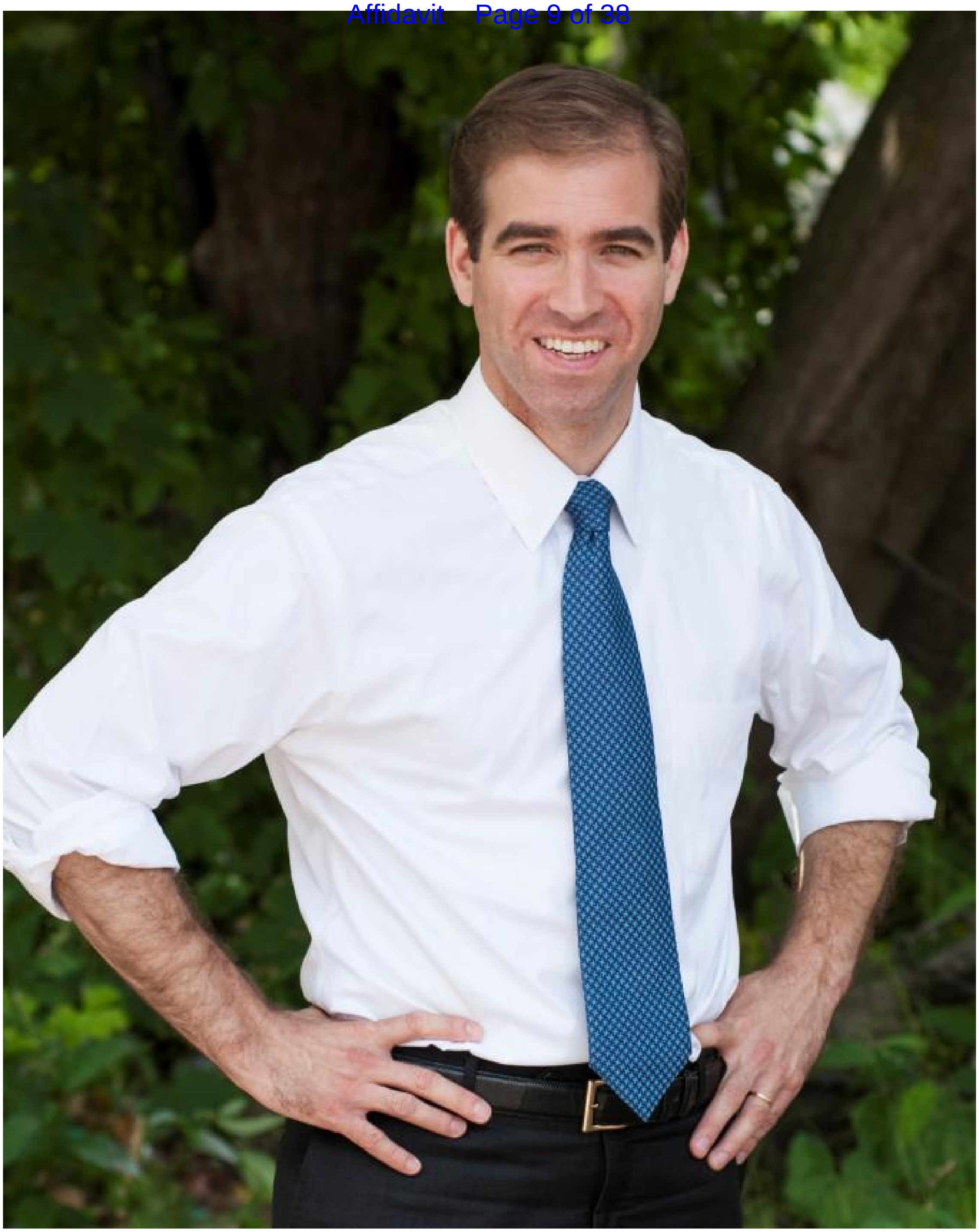
By **Paul Burton**
Published **September 19 2017, 9:35am EDT**

More in **Ratings, Budgets, Bankruptcy, Dannel Malloy, Luke Bronin, Michael Imber, Bill Goddard, City of Hartford, CT, State of Connecticut, Connecticut**

HARTFORD, Conn. -- While Hartford Mayor Luke Bronin awaits state aid from a Connecticut legislature that still can't pass a budget, another significant event looms.

On Monday, he is scheduled for a conference call with the holders of city bonds that are several levels into junk. Two weeks ago, Bronin said Hartford could file for bankruptcy within 60 days.

"Look, I hope that our bondholders will recognize the need for, you know, the collaborative participation of all stakeholders to try to achieve a long-term sustainable plan," Bronin said Friday after his keynote speech at the University of Connecticut School of Law symposium on municipal distress.



"I hope that our bondholders will recognize the need for the collaborative participation of all stakeholders," said Hartford Mayor Luke Bronin.

Bronin, the capital city's mayor since January 2016 and former chief counsel to Gov. Dannel Malloy, has said that roughly $40 million of state aid, bondholder concessions and the reworking of municipal contracts are all essential for the 123,000-population capital city to avert a bankruptcy filing.

Over the summer he hired law firm Greenberg Traurig LLP to weigh restructuring options.

Bronin said the diminished aid in the Republican-crafted $40.7 billion biennial budget, which the legislature passed before dawn on Saturday and which Malloy has promised to veto, would push Hartford into Chapter 9.

S&P Global Ratings and Moody's Investors Service rate Hartford's bonds six and seven notches, respectively, below investment grade.

S&P last Thursday downgraded city GOs four notches to B-minus -- just as state lawmakers at the capitol complex were in one of the many mad scrambles of late over the budget. Two days earlier, Moody's dropped Hartford two notches to Caa1.

Neither Fitch Ratings nor Kroll Bond Rating Agency rate Hartford's bonds.

Insurance, primarily through Assured Guaranty Municipal Corp. and Build America Mutual, covers roughly 80% of the city's outstanding bonds. Hartford has about $550 million of debt overall, mostly general obligation.

Municipal Market Analytics expects the monolines to lean on City Hall to pursue an out-of-court debt restructuring rather than "an extended court battle in which legal fees consume much or all of the city's potential savings and where capital market access for other distressed cities in the state may be compromised."

Still, said MMA, "The mayor's strong advocacy of bankruptcy as the better way should force Connecticut bondholders to assume that a Hartford bankruptcy is the base-case scenario and that Connecticut state and local bonds will underperform the general market through year end, at least."

Daniel Berger, Municipal Market Data senior analyst, said "very little" visible Hartford bond activity exists.

However, according to Berger, $1.4 million of Hartford lease debt, which carries a 5% coupon and matures in February 2036, traded at a yield of 11.66%, or 915 basis points above MMD's calculated AAA-rated security at the same maturity.

Malloy would have to authorize any bankruptcy filing. Whether Bronin needs the approval of the City Council -- some of whose members oppose bankruptcy -- is unclear.

When Bridgeport, Conn., filed for Chapter 9 in 1991, the council objected to Mayor Mary Moran's petition. Conversely, the Harrisburg, Pa., council in 2011 filed for bankruptcy over the objections of Mayor Linda Thompson. In each case, however, a federal judge negated the filing and rendered moot any internal disputes.

Hartford's most recent available fund balance is $15.2 million, according to S&P.

Bond insurers can play several roles in distress mediation, said William Goddard, a partner with law firm Day Pitney LLP. "They have very special rights," he said. "They're very important players."

According to Goddard, they may speak on behalf of bondholders while making payments and be entitled to fee reimbursement where it would be difficult for other creditors to do so. In addition, they may have wrapped in a secondary market with no promises, be averse to employees and pensioners, and can fight a bankruptcy petition.

Michael Imber, a senior director with the public sector service group of workout firm Alvarez & Marsal, urged municipal issuers to be transparent.

"Communicate, communicate, communicate with all of the stakeholders, and if you're carrying a big debt, talk to the bondholders," said Imber, who advised major creditors during the bankruptcy cases of Detroit, Jefferson County, Ala., and Mammoth Lakes, Calif.

"Talk to your bond insurer if your bond insurer is covering your issues. And if you walk in and explain early you're having problems, here are the facts, here's our vision of how we're going to come out if this, here's what we don't know, you will get a lot more cooperation.

"Be honest with your creditors, be honest with your stakeholders. Share the bad news, share the good news."

Paul Burton

Paul Burton is the Northeast Regional Editor for The Bond Buyer and the author of the book "Tales from the Newsrooms." He is a sought-after public speaker and has appeared on radio and TV shows, including former CBS News White House correspondent Sharyl Attkisson's public-affairs program, "Full Measure."

More from this Author

Broke Pennsylvania to resume revenue plan talks

Connecticut budget saga takes a turn

In Hartford, a wobbly city and shaky state intersect

Comments

Posting as **locked market** Edit name

Add your comments here

Comment Now

Get BB in your inbox

Newsletter/Frequency Daily Briefin

Email Address

Sign Up

Like what you see? Make sure you're getting it all

Independent and authoritative analysis and perspective for the bond buying industry

© 2017 SourceMedia. All rights reserved.

EXHIBIT 2

Written Testimony of Natalie Jaresko

Executive Director

Financial Oversight and Management Board for Puerto Rico

before the

House Committee on Natural Resources

"Examining Challenges in Puerto Rico's

Recovery and the Role of the Financial Oversight and Management Board"

November 7, 2017

Chairman Bishop, Ranking Member Grijalva and members of the Committee, I am Natalie Jaresko, Executive Director of the Puerto Rico Financial Oversight and Management Board (the "Board"). Thank you for this opportunity to update the Committee on the work of the Board and the situation in Puerto Rico in light of the tragic damage done to the Island and its people by Hurricane Maria and to a lesser extent Irma. Puerto Rico and its residents were engaging in often heroic efforts to help those who suffered greatly from Irma when Maria unleashed its fury on us. My testimony will concentrate on the Maria-caused challenges.

First, I want to thank this Committee, Congress, the Administration and the American people for the generous, recently-enacted emergency aid to the Island along with support for our fellow citizens in Texas, Florida, California and USVI. Likewise, we are deeply grateful for the efforts of FEMA, the U.S. military, the Army Corps of Engineers and all those involved in this historic relief effort. I also wish to acknowledge the efforts of Governor Rosselló, local mayors, and all those in Puerto Rico who are saving lives and supporting the recovery efforts. Maria was the worst storm to hit Puerto Rico in the past 100 years. The entire island was devastated.

As you know, the Board was established by Congress to support the fiscal and economic turnaround of Puerto Rico, as well as restructure the sizable debt obligations that the Commonwealth and a number of additional governmental entities in Puerto Rico have incurred over the years. The terrible impact of Hurricane Maria makes these challenges both more difficult and more urgent. The Board and I have been working every day to make sure that we are providing the kind of support, leadership and oversight necessary to help the Island.

The day after Hurricane Maria hit, the Board provided Governor Rosselló with the authority to reallocate up to $1 billion of the Commonwealth's budget to give the government flexibility to respond to the most pressing needs presented by the first weeks of the crisis. Shortly thereafter, we focused on the need for emergency liquidity assistance to deal with the fact that the hurricane caused revenues to drop and expenditures to increase. We worked closely with the Governor and his staff to estimate the dimensions of the cash-flow shortfall caused by the

hurricane's damage and disruption. We jointly presented the results of that work to the Administration and Congress. Again, we thank the Administration and Congress for including liquidity relief via the Community Disaster Loan program with the other essential assistance provided in the emergency supplemental legislation. We know that longer term liquidity to keep the government functioning and to provide key basic services to the residents of the Island is a subject that we will need to continue to work to address with the Governor, Congress and the Administration.

I served as Minister of Finance of Ukraine after the Revolution of Dignity and during the war in the east. I understand the complicated and often difficult measures that are required in times of crisis. I lived through the painful process of determining how to use limited funds in the treasury to ensure the government could effectively govern despite the realities. I know the importance of the need to restore confidence and build a recovery that inspires individuals and businesses to play their valuable ongoing role in rebuilding Puerto Rico. The work of recovery and rebuilding will be long and taxing. In many ways it has barely begun. For these reasons, we will continue to do everything in our power to help the Governor and local authorities in the ongoing efforts.

The hard truth is that the Island now needs help—emergency and restoration funds and assistance on an unprecedented scale. Before the hurricanes, the Board was determined that Puerto Rico and its instrumentalities could achieve balanced budgets, work its way through its debt problems, and develop a sustainable economy *without* federal aid. That is simply no longer possible. Without unprecedented levels of help from the United States government, the recovery we were planning for will fail.

More immediately, there are areas of pressing need—problem areas turned into full-blown emergencies by the hurricanes. These include energy, water, housing, and healthcare. While conditions have improved—for example, distribution of fuel has normalized and grocery store shelves have been restocked—the Island continues to lack electricity, which will not only frustrate economic recovery but impacts daily life, particularly for people who need access to refrigeration for their medicines. Thousands remain in shelters, including seniors, people with disabilities and the bedridden. Tens of thousands of houses do not have roofs, and the installation of temporary tarps will not be completed for months.

In PROMESA, Congress charged us with guiding and overseeing the restoration of the Island to fiscal health via long term fiscal planning and annual balanced budgeting, restoring its ability to access private capital via both debt restructuring and economic development, and, as part of that, helping the Island transition to a sustainable economic model that provides opportunities for our citizens.

We are all too well aware, and as you, Mr. Chairman, and this Committee well knows, that Hurricanes Irma and Maria have made our job much more challenging. The hurricane-caused damage has added greatly—and will add greatly—to the financial distress of the Commonwealth and its instrumentalities. In our view, while our job has become more difficult, it has also become ever more important.

Every dollar of relief funds must be used to address the hurricane-caused needs of those on the Island and to meet the extraordinary challenges of rebuilding a more resilient Puerto Rico with a revitalized economy. It would be tragic if the hurricane-recovery efforts were not integrated into the broader and lasting plan for economic recovery upon which the Board and the Government were focused prior to the hurricane.

Central to avoiding such outcomes will be rethinking and adapting the Fiscal Plans created before the hurricanes in a way that is cognizant of the on-the-ground realities of a hurricane-devastated island but that does not lose sight of our charge to restore Puerto Rico to long-term financial health. I will describe in some detail in this testimony how we are approaching the dual challenges.

Hurricane Maria and the infusion of federal rebuilding funds it will involve likewise raise questions about how to apply PROMESA to the challenges ahead which were not part of the original thinking when PROMESA became law.

Our Work Pre-Maria

The period after the passage of PROMESA and before Hurricanes Irma and Maria stretched a little more than a year. In that time, much had been done to fulfill our charge to work with the Government of Puerto Rico to ensure Puerto Rico achieves fiscal balance, to provide a path for its return to the capital markets, and to restore economic growth and opportunity for the people of the Island.

Consistent with its charge under PROMESA, the Board conducted an independent and comprehensive analysis of Puerto Rico's fiscal situation. Before the hurricanes, Puerto Rico had over $74 billion in debt, over $53 billion of unfunded pension liabilities, an economy that had contracted nearly 15% over the last decade, and a nearly 50% poverty rate. In addition, Puerto Rico's structural budget deficits were projected to average 50% of recurring revenues. Severe liquidity challenges and persistent budget deficits have contributed to a perilous lack of investment in infrastructure.

The certified Fiscal Plan for Puerto Rico and those for its covered instrumentalities charted a path for a turnaround without new federal funding. The fiscal and structural reform measures — from transforming the energy sector and modernizing labor laws to reducing government spending by approximately 30 percent over three years—were ambitious and required unprecedented levels of effort by the Government of Puerto Rico.

The Government of Puerto Rico was acutely aware of the difficult choices necessary to achieve fiscal balance and restore economic growth when it developed ten year Fiscal Plans for Puerto Rico and its instrumentalities, as was the Board when it assessed, amended and certified them. The Government of Puerto Rico had begun the hard work of implementing the changes required by the Fiscal Plans via the adoption and certification of the first fiscal year budget compliant with the Fiscal Plan, which included reducing subsidies, increasing tax compliance, taking on direct payment of pensions in the budget, and beginning a three-year process of rightsizing the government. More medium-term work had begun on deeper pension reform, as well as healthcare reform that would reduce forecast costs some 30% within ten years.

Puerto Rico's New Reality

Puerto Rico is faced with a unique set of circumstances – the largest public entity restructuring in the history of the U.S. combined with the greatest hurricane devastation to strike in 100 years.

Liquidity

Let me shed some light on Puerto Rico's liquidity situation. The devastation has destroyed critical infrastructure, making revenue collection extremely difficult. Moreover, Hurricane Maria

has caused severe damages to the private sector. Many businesses were forced to shut down due to structural damage, while those able to continue operating will likely incur substantial losses due to the additional expenses they must make in order to stay open, such as purchasing and running generators for electricity. Puerto Rico's tax revenue collection will be severely impacted.

At the same time, operating expenses during this period, such as paying for essential services, will remain generally the same, while disaster-related expenses will increase relative to the baseline, which had not contemplated a historic hurricane. In addition, there is a timing mismatch between when disaster-related expenses are incurred and when, if at all, FEMA reimburses the Government for those expenses.

Therefore, without support from the federal government, Puerto Rico would run out of cash by the end of this quarter. That means no money to make payroll for teachers, police, and first responders, or pay pensions and other liabilities. This puts the Commonwealth, with limited cash on hand, in a liquidity crisis.

In the first weeks after the hurricane, the Board and the Government jointly produced an estimate of the size of this liquidity crisis based on the best available data. The extent of the short-term impact of the hurricane on the capacity of the Commonwealth and its instrumentalities is illustrated by the work we did with the Government in estimating its cash requirement through the end of this year to be approximately $5 billion. The Government subsequently revised the estimate to $3.6 billion to account for the facts that the Government has been able to receive FEMA advances to pay for expenditures and FEMA has been directly paying other federal agencies, such as the U.S. Army Corps of Engineers. The original $5 billion estimate did not anticipate either of these developments.

The liquidity analysis relied on many factors, some of which are difficult to forecast. For example, we know that Puerto Rico is experiencing a massive population exodus, but the exact amount of that exodus is unknowable. We used a figure of 5%, or 170,000 people through the end of the calendar year. The number is certainly alarming, but not far from reality. In fact, Florida Governor Rick Scott has said that since October 3, more than 90,000 Puerto Ricans have arrived in Florida through Miami, Orlando, and Port Everglades.

Most of the revised liquidity shortfall estimate of $3.6 billion results from updates to disaster relief funding assumptions. In particular, the funding requirement has been reduced by approximately $1.5 billion to account for the fact that most disaster relief spending is presently being funded directly and wholly by FEMA, rather than being processed through Puerto Rico's Treasury Single Account with a reimbursement lag and a partial cost share. The estimate for recovery expenditures was based on the public portion of total reconstruction costs from Hurricane Katrina, scaled to the population and construction costs of Puerto Rico, and taking into account a timing lag of reimbursements which is typical in recovery situations. The forecast will continue to be updated to reflect official damage assessments and updated relief funding projections as that data becomes available.

We have also worked with the Government to provide a more medium-term perspective. Our initial estimates of the Island's liquidity over the next seven quarters, including the present quarter, for which Congress has already provided liquidity assistance, are in the range of $13 to $21 billion, but they are currently being revised. This is the amount of money we, along with the Government, project is necessary to ensure provision of the basic functions of government, keep on the job policemen, firemen, teachers, healthcare workers and all public service employees who

are helping in the hurricane recovery efforts, and advance the funds required for recovery before FEMA reimburses.

As Congress considers its support for Puerto Rico, it will be vital that any loans or grants provided to meet these needs be measured against the Fiscal Plans and integrated with them. The mechanisms of PROMESA and the full participation of the Board will be required. We have proposed legislative language to this end with regard to liquidity. It would require the Board to certify all requests for liquidity advances. This will assure that only *hurricane-caused* liquidity advances will be sought.

Fiscal Plan Revision

We are well aware that—just as you have stated, Mr. Chairman—we will have to revise the certified Fiscal Plans in light of the hurricanes' devastation. Working closely with the Government of Puerto Rico, it is essential to use the process of revising Fiscal Plans to return to the PROMESA goals of fiscal responsibility, access to private capital markets, and sustainable economic independence. The baseline of the existing certified Fiscal Plans and their associated budgets provides critical information against which to measure the changes caused by the hurricane. But the existing Fiscal Plans do not provide a map for the post-hurricane future and do not provide timely oversight. In this light, the process of thinking through the nature and scope of the changes to Puerto Rico's economy post-hurricane has already begun.

Responding to the humanitarian crisis on the Island must be the Government's first priority, and the Fiscal Plans must be revised to reflect that priority—just as they must be revised to reflect the economic-realities of hurricane devastation. Fiscal and structural reforms need to be reviewed in light of the new baseline that results from this disaster. A critical additional element in the Fiscal Plan process will be understanding the amount of federal funding for rebuilding which we understand will be made available later this year once more detailed damage assessments can be provided. These federal funds will be essential to understanding the economic assumptions, projections and capital expenditure plans that will drive much of the revised Fiscal Plan. Revisions to the Fiscal Plan are necessary due to four primary reasons:

- First, the Commonwealth's ability to collect revenues has been significantly compromised as a result of the serious negative effect of infrastructure damage and population outflows on underlying economic activity.
- Second, recovery-related expenses are substantial, not all will be reimbursed by federal aid, especially if local share requirements are not waived, and are not currently accounted for in the existing fiscal plans.
- Third, many of the cost-saving measures built into the budgets—the reduction in certain subsidies incorporated into the certified budget, for example—must be looked at with a fresh perspective given the demands of the recovery process.
- Fourth, the "federal line" will be significantly larger than the existing Fiscal Plans. It is important to note that the revised plans will reflect any and all capital expenditures funded by FEMA or other federal recovery assistance. It will also involve any revisions to Medicaid funding.

The Board has outlined nine principles for the Government to guide the work on revised Fiscal Plans:

- *Principle 1*: The fiscal plan must reflect the current demographic trends, economic challenges, hurricane damage assessments, federal funding commitments, and a government, both the central government and local governments, sized to this post-hurricane reality.
- *Principle 2*: The revised fiscal plan must cover five fiscal years, the first fiscal year being FY18 and concluding with FY22.
- *Principle 3*: To properly establish an accurate assessment of the fiscal outlook, the base-case scenario within the fiscal plan must assume no additional federal support beyond that which is already established by law. Nevertheless, fiscal plans should be adjusted as additional federal funding is committed.
- *Principle 4*: The revised fiscal plan must provide sufficient resources to ensure appropriate immediate emergency response and recovery effort in anticipation of federal funds, including provision of public safety, healthcare and education, in order to avoid increased outmigration – particularly by working families and working age populations. The fiscal plan must include metrics focused on the improvement of living standards, e.g. education, healthcare, job creation.
- *Principle 5*: Pension reform, corporate tax reform, and other structural reforms necessary to improve the business climate must remain priorities in the fiscal plan.
- *Principle 6*: Based on available and dedicated resources, the capital expenditure plan must provide the basis for a long-term economic recovery plan for Puerto Rico, focusing on increased and expedited support for rebuilding critical infrastructure such as energy, water, transportation and housing.
- *Principle 7*: The fiscal plan must include the resources to complete the FY15 Commonwealth consolidated audited financial statements by no later than December 31, 2017, and FY16 and FY17 Commonwealth consolidated audited financial statements by no later than June 30, 2018. Thereafter, Commonwealth consolidated audited financial statements should be issued no later than within six months of the fiscal year-end.
- *Principle 8*: Structural balance should be achieved as soon as possible, in any event by no later than FY22, after taking into account the period of time required for the stabilization of Puerto Rico's humanitarian crisis.
- *Principle 9*: The fiscal plan must be accompanied by a long-term debt sustainability analysis (DSA) and detailed economic projections, reflecting a 30-year period.

Finally, the Commonwealth's Fiscal Plan revision process is based on three key components:

- Revising macroeconomic driver effects on revenue and expenses,
- Adapting fiscal and structural reform schedules based on the recovery timeline and feasibility, and
- Integrating recovery funds and reimbursement timing with a capital plan.

This process will require us to make the best possible analytical projections on the basis of all data available. However, given the level of uncertainty, it is important to note that unlike the original fiscal plan which covered ten years, the revised fiscal plan will cover five years, as required by PROMESA, with the first fiscal year being FY18 and concluding with FY22.

In an effort to incorporate input from all stakeholders, the Board will hold three listening sessions to which all stakeholders are invited to provide input to the Fiscal Plans as part of the revision process. They each will be a full day in duration; two of them in Puerto Rico, and one in New York City. In addition, we have agreed with the court-appointed mediators to hold two additional sessions with creditor stakeholders. The Government will participate in these sessions as well.

Our aim is to move deliberately to prepare and approve revised Fiscal Plans. The reason is simple: a revised fiscal plan is key for the Government to move forward in requesting federal funds, outlining structural and fiscal reforms, implementing capital expenditure plans, and enabling proper oversight on a timely basis, as required by PROMESA. The deadline for the Commonwealth, PREPA, and PRASA to submit draft Fiscal Plans to the Board is December 22, 2017 with review and revision ongoing through the goal certification date of February 2, 2018. The deadline for the University of Puerto Rico, HTA, GDB, and COSSEC to submit draft Fiscal Plans to the Board is February 9, 2018 with review and revision ongoing through the goal certification date of March 16, 2018.

In keeping with PROMESA's purposes, it will take great discipline, transparency and accountability to make the best use of federal and Commonwealth rebuilding funds. To the full extent possible, the rebuilding of hurricane-damaged Puerto Rico should serve PROMESA's goal of a financially sustainable Puerto Rico enabled by a resilient and vibrant economy that makes sense for the Commonwealth.

Contracts Review Policy

We have also taken other steps to fulfill our mandate under PROMESA. As we embark on the immense task of rebuilding Puerto Rico in the wake of Hurricanes Irma and Maria, we expect the Government to enter into numerous large contracts. We have implemented a Contract Review Policy ("Policy") as a tool to ensure transparency throughout the entire government for the benefit of the people of Puerto Rico and all stakeholders. The Policy is implemented pursuant to Section 204(b)(2) of PROMESA to assure that contracts promote market competition and are not inconsistent with the approved fiscal plan. It also follows sections 204(b)(3) and 204(b)(5).

In establishing the Policy, the Board is mindful of Section 204(d)(2) of PROMESA and does not intend to impede the Government's implementation of any federal programs, particularly those related to disaster response and recovery. To the contrary, the Board established the Policy in large part to support the Government's implementation of federal programs, including, for example, to ensure that contracts are consistent with the requirements of federal programs, particularly those related to funding and reimbursement for disaster aid spending. Non-compliance with federal requirements could cause substantial fiscal costs to be borne by the Commonwealth, having a severely adverse fiscal effect on compliance with fiscal plans.

The Policy applies to all contracts in which the Commonwealth or any covered instrumentality is a counterparty, including those with the federal government, state governments,

private parties, and nonprofit organizations. The Policy provides that effective November 6, 2017, all contracts or series or related contracts, inclusive of any amendments or modifications, with an aggregate expected value of $10 million or more must be submitted to the Board for its approval before execution. In addition, the Board retains the authority to adopt other methods, such as random sampling of contracts below the $10 million threshold, to assure that they promote market competition and are not inconsistent with the approved fiscal plan.

The Oversight Board is prepared to review contracts in a timely manner. As such, we have identified an internal working group to take the lead on the contract review process. We look forward to working hand in hand with the Government of Puerto Rico to ensure the upmost transparent, fair, and competitive contracting processes.

Appointment of Chief Transformation Officer for PREPA

PREPA is a case in point of an entity within the Government that needs to be transformed. Past mismanagement has led to an outmoded, unstable, patch-work grid and an inefficient and unduly expensive power sector. Rebuilding efforts should be integrated into the planning that avoids reprising past mistakes. We should plan and build for a better power sector and one that can move rapidly toward attraction of private capital to ensure the most effective transformation of the power sector.

As a critical step towards this, the Board has appointed Noel Zamot, the Board's current Revitalization Coordinator, as the Chief Transformation Officer of PREPA in accordance with its authority under Title III of PROMESA. The Title III court set a hearing for November 13, 2017 to consider our motion. In bankruptcy proceedings, it is common practice for a debtor in possession to name a Chief Transformation Officer, sometimes also referred to as a chief restructuring officer, to help turn around organizations and manage them while in bankruptcy. This is no different, but certainly more urgent.

Upon confirmation by the court, Noel's task will be to lead the transformation of PREPA and the rebuilding of the electricity sector following the devastation of Hurricane Maria. His immediate priority will be to fast-track reconstruction efforts on the Island in close coordination with the Government of Puerto Rico, the Board, and the federal government. In addition, Noel will be fully committed to bringing the resources necessary to restore electricity to the people of Puerto Rico as quickly as possible, and to re-activate the economy and bring normalcy to the Island.

The appointment of Noel is an essential step in achieving the goal of providing Puerto Rico residents and businesses reliable, resilient and reasonably priced electricity supply, which will also require attracting the private capital we need to revitalize the power sector. Our vision for the future of Puerto Rico's energy sector is simple: a more modern, efficient and resilient power sector to revitalize the economy and deliver a better future for the people of Puerto Rico.

Role of the Oversight Board

PROMESA and its tools were not written for responding to or recovery from a catastrophic hurricane. The reality in which we operated prior to the devastation is much different than Puerto Rico's current reality. The tools to rebuild a more resilient and economically viable Puerto Rico now include significant federal funds, and we see the Board having an active role in ensuring those monies are used in the best interest of the Island. For us, ensuring fiscal controls to deliver

confidence in the government is key. The role we can play is clear, but we remain cognizant that in several occasions in which we have exercised our authority, there has been substantial opposition, often resulting in litigation.

Questions

I will now turn directly to the questions the Committee has posed to us:

1. What is the Board doing now to fulfill its oversight function, specifically with respect to revision of Fiscal Plans?

As indicated above, careful, principled and transparent revision of the Fiscal Plans is essential. We are actively engaged, along with the Government, in the analytical work that underlies that process. The extent of federal aid in the year-end disaster relief package Congress is planning is obviously a key variable. The "federal line" will constitute a very significant change from the existing Fiscal Plans. As you know, the earlier plans were balanced without any federal assistance. The revised plans will reflect any and all capital expenditures funded by FEMA or other federal recovery assistance. It will also involve any revisions adopted to Medicaid funding. As soon as we know that and have had an opportunity to study its impact, we will have all we need to work with the Government in finalizing revised Fiscal Plans. We aim to complete Board certification in the first week of February 2018 for the Commonwealth, PREPA, and PRASA.

We are also reviewing and renewing all of the liquidity estimates we submitted to Treasury and Congress with the Government over the last few weeks. The passage of a few months should give us a better idea of the extent of revenue losses, hurricane-caused net increase in expenditures, and delayed cost reductions. We will continue to monitor liquidity weekly, which is now being published publicly by the Government.

With respect to budgeting, we are updating our reporting blueprint to incorporate information on disbursements and use of federal funds received by the Government and its instrumentalities, as well as reallocation of budget items for emergency measures as we laid out in our letter to the Governor the day after Hurricane Maria hit. We also will receive a budget compliance report next week that will show how actual expenses and revenues compare to budgeted expenses and revenues for the first fiscal quarter, ending September 30, 2017.

Moreover, pursuant to Section 103(d) of PROMESA, the Board is initiating formal requests to Federal department and agency heads to detail personnel of their respective department and agencies to the Board to assist it in carrying out its duties under the Act. We are certain that we will receive cooperation from our federal counterparts in detailing subject matter experts to support the Board and the Government of Puerto Rico.

2. What can the Board do to oversee the proper expenditure of federal Hurricane recovery funds?

Through the process of working with the Governor to create and certify Fiscal Plans under Section 201 of PROMESA, we can make sure that hurricane recovery funds are properly accounted for and directed in a revised Fiscal Plan. We have similar authority with respect to making sure that the more detailed annual operating budgets developed by the Governor or covered instrumentalities conform with the certified Fiscal Plans.

Once certified Fiscal Plans and budgets are in place, we have authority to ensure compliance with those Fiscal Plans and budgets. Section 203 requires the Governor to submit a

report at the end of each fiscal quarter on actual receipts, expenditures and cash flow. We are instructed to alert the Governor to any inconsistencies with the certified Fiscal Plan and budgets. If the Governor or a covered instrumentality fails to make corrections, the Board is empowered to make appropriate reductions in non-debt expenditures to ensure the quarterly budget aligns with the certified budget. Further clarity with regard to these authorities may prevent challenges that have previously resulted in litigation.

With respect to the actual contracting process by the Commonwealth or covered instrumentalities, as just described, we can review contracts under our policy created under Section 204 to ensure they are consistent with the fiscal plan, promote market competition, and as applicable are consistent with federal regulations pertaining to reimbursement and funding. Section 204(d) does state that the Board shall not impede the Government's actions to implement federal authorized or federally delegate programs, but our policy does not impede the implementation of federal disaster relief programs – to the contrary, it should provide stakeholders with greater confidence in the process itself.

With respect to debt, pursuant to Section 207 the Board must approve any new debt issuance or debt exchange or modification. Under the legislation you just passed to assist Puerto Rico with its liquidity challenges, the funds will be distributed via the Community Disaster Loan program. Because these are loans, the Board must and will review each loan to ensure it is advisable that the borrower take out that specific loan with those specific terms.

3. What additional tools does the Board need to ensure that federal funds are properly expended and that they are expended as part of a plan that makes sense for Puerto Rico's future?

Mr. Chairman and members of the Committee, I understand the importance of this question and the imperative for this Committee to examine it. My general answer—and my answers to any particular questions posed to me today—will of course reflect the current limitations of the Board's ability to meet the great challenges that the hurricanes' devastation has caused Puerto Rico and the new challenges it presents to Congress and the PROMESA structure as well.

I want to emphasize, though, that while the question is expressed in terms of "need," the Board is not seeking additional responsibilities nor the tools to go with them. The Board is a creature of Congress, appointed on a voluntary, bipartisan basis, serving the American citizens of Puerto Rico. We have been exercising our authority under PROMESA.

If Congress determines that additional Board responsibilities will enhance confidence and enable greater support for Puerto Rico after these devastating hurricanes, I believe the Board would be willing to accept additional responsibilities. Similarly, if Congress determines that clarification and reaffirmation of our existing authority in light of the new demands placed on all of us by the necessity of hurricane recovery will be useful to avoid litigation and the uncertainty, time, and cost it entails, we would of course welcome that. Like the people and Government of Puerto Rico, Congress and the Administration, we know that the hurricanes have produced new realities we must deal with as wisely and faithfully as we can.

I can give one example of where Congressional clarification and ratification of our authority may well be critical—the appointment of the PREPA Chief Transformation Officer. We believe our authority—and responsibility—under PROMESA and basic bankruptcy tenets is clear. However, our authority is being vigorously opposed by some parties in the Title III proceeding.

Even after an initial ruling, litigation and associated uncertainty may linger during appeals. Congressional clarification would resolve what otherwise is potentially very damaging litigation.

Conclusion

Again, Mr. Chairman and members of the Committee, we deeply appreciate your concern for the American citizens who live in Puerto Rico, and, on behalf of the Board, I pledge to continue to work with you to do all we can to meet the new challenges and to achieve PROMESA's goals. I look forward to your questions.

EXHIBIT 3

FAFAA Puerto Rico Fiscal Agency and Financial Advisory Authority

Puerto Rico Department of Treasury

Treasury Single Account ("TSA") FY 2018 Cash Flow

As of October 20, 2017

TSA Status

	TSA Cash Flow Line Item	Schedule	Comments	Status
Collections	Collections Post Account	A	▪ Now receiving collections data on a regular basis. ▪ Received guidance that the data is preliminary and will be subject to numerous re-classifying journal entries.	
Collections	Agency Collections	B	▪ Now receiving supporting schedule by agency from Hacienda on a regular basis.	
Collections	SUT	n/a	▪ Electronic portal for collections (SURI) is operational. ▪ Many businesses unable to remit collections to Hacienda due to connectivity issues. ▪ Exemptions in place for emergency-related sales; no controls in place to ensure compliance.	n/a
Collections	Federal Funds	C	▪ Now receiving supporting schedule by agency from Hacienda on a regular basis. ▪ Separate bank account has been set up to receive all FEMA-related funds.	
Disbursements	Payroll	D	▪ After two payroll cycles were advanced per management decision in previous weeks; payroll has resumed its normal schedule. ▪ Payroll system (RHUM) is operational with certain limitations. ▪ Data has not yet been received this week, though it's expected on 10/26.	
Disbursements	Vendor Disbursements	E	▪ Able to process invoices and release payments. ▪ Continuing to make payments < $10K; For invoices > $10K, Hacienda is prioritizing federally funded invoices, critical services, and not-for-profits. ▪ All TSA agencies able to produce vendor disbursements data with the exception of JCA & ASSMCA.	
Disbursements	Appropriations to Government Agencies	F	▪ Able to transfer funds to agencies in accordance with liquidity plan. ▪ Advanced November and December scheduled appropriations for ASEM due to immediate liquidity needs.	
Disbursements	Accounts Payable	G	▪ Currently working with BDO team to analyze recorded and unrecorded invoices. The ability to produce a report this week is currently TBD.	

FAFAA

Able to produce report   Not able to produce report

Other TSA Considerations Post-Maria

TSA Cash Flow Line Item	Comments
Collections Post Account	▪ Individual Income Tax, Corporate Income Tax, Cigarette Tax, Act 154, Non-Resident Withholding Tax, Alcoholic Beverages Taxes and other tax revenues are collected through the Collections Post Account. ▪ Individual/entities pay taxes owed to Hacienda at "Colecturías" sites, which are scattered throughout the island. Alternatively, individuals/entities can pay taxes via the virtual 'web colecturia'. ▪ Approximately 28 of the 62 Colecturías sites are not operating. Individuals/entities in municipalities where Colecturías sites are non-operational may not be able to pay their tax liabilities.
Agency Collectors Account	▪ Agencies that are closed will be unable to earn revenues and collect cash for charges for services (no service is rendered if the agency is closed). ▪ Agencies that face operational challenges may be unable to remit collections to Hacienda. ▪ Conducting analysis to determine which agencies have been unable to make payments to Hacienda.
SUT	▪ Businesses may not be able to pay SUT obligations via SURI if they are facing connectivity issues. ▪ SUT proceeds from September are not due to Hacienda until October 27th. Difficult to gauge effects of Hurricane Maria on SUT until September SUT proceeds are deposited in the TSA. ▪ October TSA inflows from SUT collections are from SUT proceeds collected by businesses prior to Hurricane Maria. As a result, post-Maria SUT collections are more in line with projections relative to other revenue concepts. ▪ Large SUT taxpayers (Wal-Mart, Home Depot, etc) represent over 50% of total SUT collections.
Federal Fund Inflows	▪ Agencies may not be able to submit requests to the Federal Government for reimbursement of eligible expenditures if they are facing issues with connectivity.
Vendor Disbursements	▪ Agencies may face delays in entering vouchers/invoices into Hacienda's ERP, as the process requires more manual effort without the agencies' interfaces functioning properly.

FAFAA

Disclaimer

- *The Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), the Government of Puerto Rico (the "Government"), and each of their respective officers, directors, employees, agents, attorneys, advisors, members, partners or affiliates (collectively, with AAFAF and the Government the "Parties") make no representation or warranty, express or implied, to any third party with respect to the information contained herein and all Parties expressly disclaim any such representations or warranties.*

- *The Parties do not owe or accept any duty or responsibility to any reader or recipient of this presentation, whether in contract or tort, and shall not be liable for or in respect of any loss, damage (including without limitation consequential damages or lost profits) or expense of whatsoever nature of such third party that may be caused by, or alleged to be caused by, the use of this presentation or that is otherwise consequent upon the gaining of access to this document by such third party.*

- *This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, the Parties do not express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein.*

- *Any statements and assumptions contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates and other assumptions made in this document. The economic and financial condition of the Government and its instrumentalities is affected by various financial, social, economic, environmental and political factors. These factors can be very complex, may vary from one fiscal year to the next and are frequently the result of actions taken or not taken, not only by the Government and its agencies and instrumentalities, but also by entities such as the government of the United States. Because of the uncertainty and unpredictability of these factors, their impact cannot be included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by AAFAF, the Government, or any government instrumentality in the Government or an admission of any fact or future event. Nothing in this document shall be considered a solicitation, recommendation or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision.*

- *By receiving this document, the recipient shall be deemed to have acknowledged and agreed to the terms of these limitations.*

- *This document may contain capitalized terms that are not defined herein, or may contain terms that are discussed in other documents or that are commonly understood. You should make no assumptions about the meaning of capitalized terms that are not defined, and you should consult with advisors of AAFAF should clarification be required.*

Glossary

Term		Definition
AACA	-	Automobile Accident Compensation Administration, or Administración de Compensaciones por Accidentes de Automoviles, is a component unit of the Commonwealth of Puerto Rico.
Act 154	-	Act 154 means Act No. 154-2010, which, inter alia, imposes a temporary excise tax on the acquisition by multinationals of certain property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico. The Act 154 temporary excise tax expires on December 31, 2017.
AFI/RBC	-	Infrastructure Financing Authority.
Agency Collections	-	Collections made by central government agencies at collection posts for services rendered by the agencies as well as fees, licenses, permits, fines and others.
ASC	-	Compulsory Liability Insurance, private insurance company.
ASSMCA	-	Administración de Servicios de Salud Mental y Contra la Adicción, or Mental Health and Addiction Services Administration, is an agency of the Commonwealth of Puerto Rico.
Bank Checks Paid	-	A report provided by the Bank that is utilized to determine vendor payments.
Checks in Vault	-	Refers to checks issued but physically kept in vault.
Collections	-	Collections made by the Department of the Treasury (Treasury) at collection posts and/or the Treasury revenue collection systems; such as income taxes, excise taxes, fines and others.
Contingency	-	Reserve account in DTPR cash flow. Related to E&Y's Expense reconciliation adjustment as per the Fiscal Plan certified on March 13. 2017.
DTPR	-	Department of the Treasury of Puerto Rico.
EQB	-	Environmental Quality Board, or Junta Calidad Ambiental, is an agency of the Commonwealth of Puerto Rico.
ERS	-	Employees Retirement System means the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, a statutory trust created by Act No. 447 of May 15, 1951, as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. ERS is a fiduciary fund of the Commonwealth of Puerto Rico for purposes of the Commonwealth's financial statements.
General Fund	-	General Fund (Operating Fund) means the Commonwealth principal operating fund; disbursements from such fund are generally approved through the Commonwealth's annual budgeting process.
DTPR Collection System	-	This is the software system that DTPR uses for collections.
HTA	-	Puerto Rico Highways and Transportation Authority, a public corporation and a component unit of the Commonwealth of Puerto Rico.
JRS	-	Judiciary Retirement System means the Retirement System for the Judiciary of the Commonwealth of Puerto Rico, a statutory trust created to provide pension and other benefits to retired judges of the Judiciary Branch of the Commonwealth. JRS is a fiduciary fund of the Commonwealth of Puerto Rico for purposes of the Commonwealth's financial statements.
Net Payroll	-	Net payroll is equal to gross payroll less tax withholdings and other deductions.
Nutrition Assistance Program	-	NAP, or the Nutrition Assistance Program, also known as PAN, or Programa de Asistencia Nutricional is a federal assistance nutritional program provided by the United States Department of Agriculture (USDA) solely to Puerto Rico.
PR Solid Waste	-	Puerto Rico Solid Waste Authority.
PRHA	-	Puerto Rico Housing Authority.
PRIFAS	-	Puerto Rico Integrated Financial Accounting System.
RHUM System	-	This is the software system that DTPR uses for payroll.
SIFC	-	State Insurance Fund Corporation.
Special Revenue Funds	-	Commonwealth governmental funds separate from the General Fund that are created by law, are not subject to annual appropriation and have specific uses established by their respective enabling legislation. Special Revenue Funds are funded from, among other things, revenues from federal programs, tax revenues assigned by law to public corporations and other third parties, fees and charges for services by agencies, dividends from public corporations and financing proceeds.
SSA	-	Social Security Administration.
TRS	-	Teachers Retirement System means the Puerto Rico System of Annuities and Pensions for Teachers, a statutory trust created to provide pension and other benefits to retired teachers of the Puerto Rico Department of Education and to the employees of the Teachers Retirement System. TRS is a fiduciary fund of the Commonwealth of Puerto Rico for purposes of the Commonwealth's financial statements.
TSA	-	Treasury Single Account means the Commonwealth's main operational account in which substantially all Commonwealth public funds are deposited and from which most expenses are disbursed. TSA receipts include tax collections, charges for services, intergovernmental collections, the proceeds of short and long-term debt issuances and amounts held in custody by the Secretary of the Treasury for the benefit of the Commonwealth's fiduciary funds. Only a portion of the revenues received by the TSA is included in the annual General Fund budget presented to the Puerto Rico Legislative Assembly for approval.
Unrecorded Invoices	-	Invoices that have been physically captured but are currently being manually entered into an Excel ledger DTPR. These invoices have not been captured in the accounting system.

Introduction

- *Enclosed is the weekly Treasury Single Account ("TSA") cash flow report, supporting schedules and budget to actual variance analysis.*

- *TSA means the Commonwealth's main operational account in which substantially most Governmental public funds are deposited and from which most expenses are disbursed.*

- *Receipts in the TSA include tax collections (including revenues assigned to certain public corporations and pledged for the payment of their debt service), charges for services, intergovernmental collections (such as reimbursements from Federal assistance grants), the proceeds of short and long-term debt issuances, and other receipts. Only a portion of the revenues received by the TSA is included in the annual General Fund budget presented to the Puerto Rico Legislative Assembly for approval. Other revenues are separately assigned by law to certain agencies or public corporations but still flow through the TSA. Furthermore, from time to time, the TSA also includes amounts held in custody by the Secretary of the Treasury for the payment of current pension benefits, including amounts deposited by the ERS, TRS and JRS.*

- *Disbursements from the TSA include payroll and related costs, vendor and operational disbursements (including those reimbursed by Federal assistance grants and funded from Special Revenue Funds), welfare expenditures, capital outlays, debt service payments, required budgetary formulas and appropriation payments, pass-through payments of pledged revenues to certain public corporations, tax refunds, payments of current pension benefits and other disbursements.*

- *Data for TSA inflows/outflows is reported daily/weekly from various systems:*
  Cash Flow Actual Results - Source for the actual results is the TSA Cash Flow. Data is received on a daily basis.
  Schedule A - Collections - Source for collections information is the DTPR collections system. Data is provided on a weekly basis.
  Schedule B - Agency Collections - Source for the agency collections is DTPR. Data is received on a daily basis.
  Schedule C - Federal Fund Receipts - Source for the federal funds receipts is DTPR. Data is received on a daily basis.
  Schedule D - Net Payroll - Source for net payroll information is the DTPR Rhum Payroll system. Data is received on a weekly basis.
  Schedule E - Vendor Payments - The source for vendor payments is the Bank checks paid report and a report from the DTPR PRIFAS system.
  Schedule F - Other Legislative Appropriations - Source for the other legislative appropriations is DTPR. Data is received on a daily basis.
  Schedule G - Central Government - Partial Inventory of Known Short Term Obligations - Sources are DTPR. Data is received on a weekly basis.

- *Data limitations and commentary:*
  The government has focused on the seven schedules above because the team has been able to access reliable, timely, and detailed data to support these items. The government continues to work with DTPR and other parties to access additional reliable data that would help us provide detail in the future for other line items in the Cash Flow. One specific area the team is making headway with is the "other payroll" line. Timing updates for detailed data regarding this line item will be provided when available. Please note that weekly cash versus forecast variances will not be available until August 4th. Please refer to this section in future weekly reports for additional updates.

Puerto Rico Department of Treasury | AAFAF **As of October 20, 2017**

TSA Cash Flow Actual Results for the Week Ended October 20, 2017

	(figures in $000s)	Schedule	Prior Variance YTD 10/13	Actual 10/20	Forecast 10/20	Variance 10/20	Actual YTD 10/20	Forecast YTD 10/20	Variance YTD 10/20
	General & Special Revenue Fund Inflows								
1	Collections (a)	A	($65,442)	$145,547	$325,515	($179,968)	$1,988,172	$2,233,582	($245,410)
2	Agency Collections	B	(59,578)	4,691	13,042	(8,351)	101,705	169,635	(67,930)
3	Sales and Use Tax		13,829	13,671	14,339	(668)	298,713	285,552	13,161
4	Excise Tax through Banco Popular		(1,162)	–	–	–	210,426	211,589	(1,162)
5	Rum Tax		28,763	–	–	–	80,363	51,600	28,763
6	Electronic Lottery		(40,669)	–	–	–	–	40,669	(40,669)
7	Subtotal - General & Special Revenue Fund Inflows		($124,260)	$163,909	$352,896	($188,987)	$2,679,379	$2,992,626	($313,247)
	Retirement System Inflows								
8	Contributions From Pension Systems		(112,709)	–	–	–	–	112,709	(112,709)
9	Pension System Asset Sales		–	–	–	–	390,480	390,480	–
10	Subtotal - Retirement System Inflows		($112,709)	–	–	–	$390,480	$503,189	($112,709)
	Other Inflows								
11	Federal Fund Receipts	C	(312,618)	57,132	108,461	(51,329)	1,368,011	1,731,957	(363,947)
12	Other Inflows (b)		22,642	(1,903)	12,539	(14,442)	106,380	98,180	8,200
13	Interest earned on Money Market Account		1,776	–	–	–	1,776	–	1,776
14	GDB Transactions		(28,766)	–	–	–	–	28,766	(28,766)
15	Tax Revenue Anticipation Notes		–	–	–	–	–	–	–
16	Subtotal - Other Inflows		($316,966)	$55,229	$121,000	($65,771)	$1,476,166	$1,858,904	($382,737)
17	**Total Inflows**		**($553,935)**	**$219,138**	**$473,896**	**($254,758)**	**$4,546,025**	**$5,354,718**	**($808,694)**
	Payroll Outflows								
18	Net Payroll (c)	D	472	(771)	(1,809)	1,038	(472,128)	(473,638)	1,510
19	Other Payroll Related Costs - (SSA, SIFC, Health Insurance) (d)		83,339	(43,324)	(46,387)	3,063	(336,467)	(422,869)	86,402
20	Gross Payroll - PR Police Department (e)		8,820	–	–	–	(195,305)	(204,125)	8,820
21	Subtotal - Payroll and Related Costs		$92,631	($44,095)	($48,196)	$4,101	($1,003,900)	($1,100,631)	$96,731
	Pension Outflows								
22	Pension Benefits		20,852	(0)	80	(80)	(605,377)	(626,149)	20,772
23	Pension Paygo Outlays on Behalf of Public Corporations		21,634	–	–	–	–	(21,634)	21,634
24	Subtotal - Pension Related Costs		$42,486	($0)	$80	($80)	($605,377)	($647,783)	$42,406
	Appropriations - All Funds								
25	Health Insurance Administration - ASES		70,298	(16,504)	(64,494)	47,990	(658,216)	(776,504)	118,288
26	University of Puerto Rico - UPR		(0)	–	–	–	(222,774)	(222,774)	(0)
27	Muni. Revenue Collection Center - CRIM		(5,311)	–	–	–	(73,243)	(67,933)	(5,311)
28	Highway Transportation Authority - HTA		12,362	–	–	–	(42,089)	(54,451)	12,362
29	Public Buildings Authority - PBA		(5,242)	–	–	–	(28,512)	(23,270)	(5,242)
30	Other Government Entities		21,716	–	(11,167)	11,167	(147,479)	(180,362)	32,883
31	Subtotal - Appropriations - All Funds		$93,824	($16,504)	($75,661)	$59,157	($1,172,313)	($1,325,293)	$152,980
	Other Disbursements - All Funds								
32	Vendor Disbursements (f)	E	280,680	(44,697)	(65,066)	20,369	(700,968)	(1,002,017)	301,049
33	Other Legislative Appropriations (g)	F	(8,711)	(2,447)	(10,921)	8,474	(119,981)	(119,744)	(237)
34	Tax Refunds		(31,097)	(4,312)	(11,701)	7,389	(221,072)	(197,363)	(23,708)
35	Nutrition Assistance Program		26,488	(46,380)	(38,322)	(8,058)	(592,103)	(610,533)	18,430
36	Other Disbursements		24,048	–	–	–	(24,718)	(48,766)	24,048
37	Reconciliation Adjustment		148,000	–	–	–	–	(148,000)	148,000
38	Subtotal - Other Disbursements - All Funds		$439,409	($97,836)	($126,010)	$28,174	($1,658,841)	($2,126,423)	$467,582
39	**Total Outflows**		**$668,349**	**($158,436)**	**($249,787)**	**$91,351**	**($4,440,431)**	**($5,200,131)**	**$759,700**
40	**Net Cash Flows**		**$114,414**	**$60,702**	**$224,109**	**($163,407)**	**$105,594**	**$154,588**	**($48,994)**
41	Bank Cash Position, Beginning (h)		–	1,843,890	1,729,476	114,414	1,798,997	1,798,997	–
42	**Bank Cash Position, Ending (h)**		**$114,414**	**$1,904,591**	**$1,953,585**	**($48,994)**	**$1,904,591**	**$1,953,585**	**($48,994)**

Comments

1 Collections variances are mainly driven by lower collections due to the impact **2** of Hurricane María. Note that corporate income tax and Act 154 collections were not impacted as severely as other collections streams.

6 This variance is timing related and is expected to reverse later this fiscal year.

11 The variance in federal fund receipts is partially offset by decreases in vendor disbursements, appropriations disbursed to ASES, and disbursements related to the Nutritional Assistance Program. The remaining variance is largely timing related.

12 Note that Other Inflows was previously inflated by ~$9.7Million in funds transferred to the TSA from FEMA. Other inflows is shown as negative this week due to a ($7.8Million) transfer from the TSA back to the separate account created specifically for FEMA use, partially offset by standard other inflows for the week ended 10/20

25 A portion of this week's variance represents a reversal of the previous week's negative timing variance. The remaining YTD variance is timing related and is expected to reverse in subsequent weeks

30 This variance is timing related and expected to reverse in subsequent weeks.

32 Variances that show lower-than-forecast vendor disbursements are largely timing related, as the release of funds to pay invoices for less essential services are being temporarily deferred at this time.

35 A portion of this week's variance represents a reversal of the previous week's positive YTD timing variance. The remaining YTD variance is timing related and is expected to reverse in subsequent weeks

Footnotes:

(a) Includes collections flowing through DTPR collection system. Further detail provided in Schedule A.

(b) Inflows related to the State Insurance Fund, the Department of Labor and Human Resources, the Commissioner of Financial Institutions, and others.

(c) Payroll is paid bi-weekly approximately on the 15th and 30th of each month.

(d) Disbursements to third-party entities for various employee withholdings such as social security, insurance, and other fringe benefits and deductions.

(e) Police payroll is reflected individually because it is paid through a separate bank account. Also, the police payroll line item shown in the TSA cash flow is gross (i.e. inclusive of Other Payroll Related items).

(f) Includes payments to third-party vendors as well as intergovernmental payments to other agencies.

(g) Refers to General Fund appropriations to non-TSA entities such as Legislative Assembly, Correctional Health, Comprehensive Cancer Center, and others.

(h) Excludes BPPR Account with balance of approximately $146mm; Amounts deposited in GDB subject to GDB restructuring.

Puerto Rico Department of Treasury | AAFAF **As of October 20, 2017**

Schedule A: Collections Detail

	(figures in $000s)	Actual 10/20	YTD FY18
	General Fund:		
1	Individuals	$27,332	$513,628
2	Corporations	21,762	374,059
3	Non Residents Withholdings	14,495	154,775
4	Act 154	47,071	453,563
5	Alcoholic Beverages	6,680	64,458
6	Cigarettes	87	36,050
7	Motor Vehicles	4,665	84,586
8	Other General Fund	3,189	66,648
9	**Total General Fund**	**$125,280**	**$1,747,768**
	Special Revenue Funds: (a)		
10	AACA Pass Through	369	16,264
11	AFI/RBC Pass Through	62	4,208
12	ASC Pass Through	433	18,618
13	HTA Pass Through	4,661	149,480
14	Total Other Special Revenue Fund	525	19,961
15	**Total Special Revenue Funds**	**$6,049**	**$208,531**
16	**Total Collections from DTPR Collections System**	**$131,329**	**$1,956,299**
17	**Collections Variance to TSA Cash Flow (b)**	$14,218	$31,872
18	**Total Collections**	**$145,547**	**$1,988,172**

Source: DTPR, collection system

Footnotes:

(a) Special Revenue Fund Collections are pledged to specific public corporations and are known as "pass-through" accounts.

(b) Due to timing. Receipts in collections post account occur approximately two business days prior to being deposited into the TSA.

Puerto Rico Department of Treasury | AAFAF **As of October 20, 2017**

Schedule B: Agency Collections Detail

	(figures in $000s)	Actual 10/20	YTD FY18
	Agency		
1	Health	$1,446	$30,741
2	Treasury	1,763	9,216
3	Education	7	938
4	Natural and Environ. Resources	0	2,895
5	Horse Racing Industry and Sport Adm.	7	1,237
6	Emergency Medical Services Corps	–	1,452
7	Treasury	–	9,120
8	Office Commissioner of Insurance	57	1,463
9	Labor and Human Resources	14	11,252
10	Human Resources Office	–	650
11	Public Services Commission	–	748
12	Environmental Quality Board	–	487
13	Correction and Rehabilitation	516	2,109
14	General Services Adm.	53	1,728
15	Industrial Tax Exemption Office	22	389
16	Housing	–	1,601
17	Permit Mg. Office & Planning Board	7	524
18	Office Finan. Inst. Commissioner	150	8,867
19	Others (a)	649	16,289
20	**Total**	**$4,691**	**$101,705**

Source: DTPR

Footnotes:
(a) Inflows related to ASSMCA, Department of Transportation and Public Works, Firefighters Corps, Department of Agriculture, and others.

Puerto Rico Department of Treasury | AAFAF **As of October 20, 2017**

Schedule C: Federal Funds Receipts Detail

	(figures in $000s)	Actual 10/20	YTD FY18
	Agency		
1	Education	$10,579	$206,516
2	Adm. Socioeconomic. Dev. Family	34,720	591,890
3	Health	3,063	497,593
4	Vocational Rehabilitation Adm.	–	5,102
5	Families and Children Adm.	–	9,588
6	Environmental Quality Board	–	3,265
7	Family	–	724
8	Others (a)	8,770	53,333
9	**Total**	**$57,132**	**$1,368,011**

Source: DTPR

Footnotes:
(a) Inflows related to the Human Resources Office, Public Services Commission, Environmental Quality Board, Department of Correction and Rehabilitation, and others.

Puerto Rico Department of Treasury | AAFAF **As of October 20, 2017**

Schedule D: Net (a) Payroll Detail

	(figures in $000s)	Actual 10/20	YTD FY18
	General Fund		
1	Education	–	$182,642
2	Correction and Rehab	–	34,901
3	Health	–	14,827
4	All Other Agencies (b)	–	120,483
5	**Total General Fund**	**–**	**$352,853**
	Special Revenue Funds		
6	Education	–	66
7	Correction and Rehab	–	–
8	Health	–	4,058
9	All Other Agencies (b)	–	19,889
10	**Total Special Revenue Funds**	**–**	**$24,013**
	Federal Funds		
11	Education	–	$57,889
12	Correction and Rehab	–	75
13	Health	–	12,452
14	All Other Agencies (b)	–	19,675
15	**Total Federal Funds**	**–**	**$90,091**
16	**Total Net Payroll from Payroll System**	**–**	**$466,958**
17	**Unreconciled Net Payroll (c)**	$771	$5,170
18	**Total Net Payroll (d)**	**$771**	**$472,128**

Source: DTPR, Rhum system

Footnotes:
(a) Net payroll data provided by DTPR allows for a reliable break down analysis.
(b) Includes Firefighter Corps, National Guard, Public Housing Administration, Natural Resources Administration, and others.
(c) Due to timing. In addition, EQB net payroll is not included in RHUM payroll system and has not been provided by DTPR.
(d) Net payroll is equal to gross payroll less tax withholdings and other deductions.

Puerto Rico Department of Treasury | AAFAF **As of October 20, 2017**

Schedule E: Vendor Disbursements Detail

	(figures in $000s)	Actual 10/20	YTD FY18
	General Fund		
1	Education	$4,114	$109,294
2	Justice	15	6,550
3	Health	2,444	31,616
4	All Other Agencies (a)	3,418	179,519
5	**Total General Fund**	**$9,991**	**$326,980**
	Special Revenue Funds		
6	Education	2,459	22,913
7	Justice	0	2,410
8	Health	1,445	39,115
9	All Other Agencies (a)	983	70,195
10	**Total Special Revenue Funds**	**$4,887**	**$134,633**
	Federal Funds		
11	Education	8,791	79,143
12	Justice	83	4,106
13	Health	2,772	49,867
14	All Other Agencies (a)	2,515	57,319
15	**Total Federal Funds**	**$14,161**	**$190,436**
16	**Total Vendor Disbursements from System**	**$29,039**	**$652,048**
17	**Unreconciled Vendor Disbursements (b)**	$15,659	$48,920
18	**Total Vendor Disbursements**	**$44,697**	**$700,968**

Source: Bank checks paid report and DTPR, PRIFAS system

Footnotes:

(a) Includes ASSMCA, Fighfighters Corps, Emergency Medical Corps, Natural Resources Administration, and others.

(b) Pending reconciliation between bank systems and DTPR systems.

Puerto Rico Department of Treasury | AAFAF **As of October 20, 2017**

Schedule F: Other Legislative Appropriations Detail

(figures in $000s)	Actual 10/20	YTD FY18
Agency		
Correctional Health	–	$16,682
House of Representatives	–	15,846
Puerto Rico Senate	–	13,644
Office of the Comptroller	–	12,453
Comprehensive Cancer Center	1,917	7,667
Legislative Donations Committee	–	6,667
Superintendent of the Capitol	–	5,049
Institute of Forensic Sciences	–	4,960
Martín Peña Canal Enlace Project Corporation	–	3,651
Authority of Public-Private Alliances (projects)	–	3,566
Legislative Services	–	3,492
Housing Financing Authority	–	3,158
All Others	530	23,147
Total Other Legislative Appropriations	**$2,447**	**$119,981**

Source: DTPR

Footnotes:

(a) Includes the Solid Waste Authority, Public Broadcasting Corporation, Musical Arts Corporation, and several other agencies.